R4105-29.13

Research Bulletin

Top-Management Staffing Challenges:
CEO's Describe Their Needs

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The Conference Board

number 121

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Today's Top-Management Staffing Challenges

Chief executives of major corporations often speak of two basic goals when in comes to staffing senior management positions:

- Planning to ensure the successful operation of the company during their own tenure as leader; and
- Longer range planning to lay the necessary groundwork for continued success of the enterprise beyond their own term of office, including, if possible, the development of strong candidates for possible succession as the next chief executive of the organization.

Once—back during the 1950's and 1960's—the simultaneous pursuit of these two goals seemed relatively easy and harmonious, for those were times in which the continuous growth of most U.S. businesses seemed virtually assured. The company's longer run future seemed merely an enlarged version of its past, so all of the top executives, including the CEO, felt free to focus most of their attention on operational problems and concerns relating to orderly, sustained growth. Thus, when it came to defining future top-management staffing needs, it was usually assumed that executives with much the same kinds of skills and abilities as those generally represented in the present, obviously highly successful, top-management group would always be needed.

In the single-business companies these top-level staffing requirements translated into:

(1) the need for senior-level executives who understood and could effectively manage the operation of each of the major functions (production, marketing, finance, etc.) of the business;

(2) the need for senior-level executives who could effectively work together with the CEO to integrate those major functions in a balanced, continuously expanding business by developing broad, companywide policies and business plans;

(3) the need for appropriately qualified candidates for ultimate leadership succession—a leader for an anticipated time of even greater profitable expansion.

The strategy that was usually tried first was: (1) to select the most able functional people for top-management slots, followed by (2) building teamwork among the top managers (committee work, a President's office, etc.), and then (3) broadening the perspective of each functional head with a view to preparing potential CEO candidates. This strategy did not work too well. In most companies it did not produce an adequate number of executives who demonstrated general management skills or who functioned well as true general operating managers.

As a result, many CEO's of such companies decided to try to start the process of general-manager development earlier in the careers of potential top managers. They adopted a developmental strategy of moving high-potential managers through a series of progressively broader and more demanding managerial job assignments spanning several of the key functions of the business. By the time these executives reached the top, it was hoped they would have mastered a generalized management and control approach to running every functional part of the business and would also have gained such a broad perspective of the operations of the business as a whole that they would routinely give balanced and coherent consideration to the needs of all the various functions. In short, by the time they reached the top, even though they then headed specific operating functions, they would all be thinking and acting very much like *general operating managers*—like potential CEO's.

CEO's of multibusiness companies were able to carry the process of developing general operating managers one step further. By divisionalizing, these companies created a number of profit centers—each a smaller integrated business headed by a true general operating manager. Because the heads of these units had actual experience serving as general operating managers, these executives were seen as a highly qualified pool of candidates with demonstrated competence to become the next chief executive or chief operating officer for the company as a whole. Indeed they seemed even better *qualified* than the senior functional executives.

There tended to be virtually continuous profitable growth in most companies' lines of business during this period, so it was relatively easy to assume that the development of good general operating managers was not only necessary, but also sufficient, for the development of all the company's highest level executives. Indeed, in some companies the myth developed that a really good general manager should be able to manage the profitable growth of virtually any kind of business.

By the beginning of the 1970's, the business environment had begun to change sufficiently to call such a sweeping generalization into serious question. From experience, it became clear that managing different kinds of businesses required different functional emphasis, different knowledge, and different skills. It also became clear that, because of external factors well beyond the control of any business manager, different kinds of businesses had different growth prospects. Moreover, it was recognized that different managerial strategies might well be called for at different stages in what might be regarded as natural phases in the life cycle of any business.

Such information had important implications when it came to forecasting the special kinds of competence that would be needed in future top-management groups. It also made it apparent that top management needed to

give continuing attention to the nature of the changes that were occurring in the environment for the company's business(es) so that the company could respond in a timely manner.

Moreover, the fact that whatever business(es) had once been the key to a company's profitable growth would one day be of waning profitability and importance drove home an especially important overall message. As times change, so must the company change by redefining the nature of its basic businesses and by planning toward a quite different company of the future.

By the 1980's, top managers began to see their essential role not merely as managing the orderly efficient operation of the existing organization but also as simultaneously managing continuous and discontinuous forms of change. Profitable growth in harmony with a rapidly changing, indeed often turbulent, business environment calls for a top management prepared to change directions and strategy whenever conditions demand it.

From the giant AT&T down the scale to considerably smaller firms, companies in a wide variety of industries are finding that they need to redefine their basic businesses. At the same time, they find it necessary to revamp their organization structures, revise their managerial processes and systems, rethink the basic nature of their top management positions, and reconsider how best to meet both present and future top-management staffing needs. And they often need help in deciding how to do all this.

Mindful of all these developments and changes, and seeking to help companies learn from each other through candid exchanges and evaluations of both the favorable and the problematic aspects of their experiences, The Conference Board conducted a personal survey of chief executives in a broad range of major U.S. corporations to learn their assessments of the key changes and challenges they foresaw with respect to top-management staffing during the next three to five years.

What was found? First, the CEO's were not prepared to wait. They said they wanted the current group of top managers to be able to deal with the new realities. They also wanted to make sure that appropriate adjustments would be made in the development of their successors.

In particular, the CEO's stress the need for the top-management group to develop a strategic business-planning perspective. Just what they mean, beyond the recognition that their top subordinates need a capacity to manage change is not clear. But one thing it does seem to imply is a need for top management to shift its planning perspective from inside to outside the company—planning the company's role in the context of the larger, changing environment in which the company will operate in the future. By involving their top-management executives in a reexamination of the unique mission and capabilities of the organization and of the underlying dynamics of its relationships to the changing environment, these CEO's hope that their top-level executives will be able to help them identify and take best advantage of significant opportunities for profitable growth.

Many of the CEO's forecast much greater diversity in the kinds of businesses that will very shortly be included under the company's umbrella—diversification that will often be achieved through important mergers or acquisitions. They stress the need for the top-management group to learn how to manage this greater range of different kinds of businesses effectively.

The CEO's also highlight some of the key considerations they believe should receive special emphasis in choosing the next CEO and lay out some of the strengths and weaknesses they have discovered in their current management succession and development planning approaches.

What emerges is by no means a rejection of past executive selection and development approaches. Rather, there is an awareness of changing times and of a growing expertise in how to fit top-management staffing processes to *tomorrow's* special needs and opportunities. By drawing more people at various organization levels into a continuing process of formulating and implementing strategic plans, some CEO's hope for better plans, less painful implementation, and a company that will go forward in closer harmony with the changing outside world. They also hope to inspire a zest for managing change.

The CEO Survey

In the Spring of 1981, The Conference Board launched a major research program in the area of top-management staffing. The first step has been to find out from chief executives what their company's top-level staffing needs really are. An eight-page questionnaire was sent to the CEO's of most major U.S. corporations asking them for their personal views of the key changes and challenges their companies face in top-management staffing over the next three to five years. All told, 432 of the 1,350 CEO's contacted responded. The response was sufficiently representative to make possible analysis of the data by broad industry categories—manufacturing, banks, insurance companies, retailing and gas and electric utilities—and also by size of company in some industries (manufacturing, banks and insurance). (See box.)

We limited our questions to those that only the CEO could answer:

- Who is in top management now?
- Who will be top management in three to five years?
- What is the general outlook for your company over the next three to five years?

About the Research Program

The CEO survey questionnaire was sent to:

- The 1,000 largest manufacturing companies (*Fortune's* industrial lists);
- The 50 largest and the 101st to 150th largest banks (*Polk's* list);
- The 50 largest and the 101st to 150th largest insurance companies (*Best's* list);
- The 100 largest retailing companies (*Newsfront's* list on a nonduplicative basis);
- The 50 largest gas and electric utilities (*Fortune's* list).

The distribution of respondents to the survey was:

	Number Responding	Percent Responding	Percent of Total Response
Manufacturers			
500 Largest	161	32%	37%
Next 500	138	28	32
Total	299	30%	69%
Banks			
50 Largest	21	42%	5%
50 Medium Large	19	38	4
Total	40	40%	9%
Insurance			
50 Largest	23	46%	5%
50 Medium Large	19	38	4
Total	42	42%	10%
Retailing—100 Largest	27	27%	6%
Utilities—50 Largest	24	48%	6%
Total	432	32%	100%[a]

[a]Details do not add up to 100 percent due to rounding.

Two participative research seminars were also held with CEO's who had responded to the survey or senior level executives whom they designated. The seminars helped to clarify some of the survey responses. They also provided an opportunity to share information on planning for management succession and development.

- What are the key challenges you foresee with respect to the top-management group during the next three to five years?
- How will your company choose its next CEO? and
- What are your views on the company's management succession and development planning?

Key findings on these topics are summarized in this report. The CEO survey results are presented in greater detail by industry, size of company, and top-management model in the Appendix and in an earlier report.[1]

The CEO's assessments of the outlook for their companies confirm that we live in turbulent times and that their top-management staffing needs are changing rapidly. In most companies the top-management team will need to learn many important new plays in a very short time. Indeed, some teams may need to master a totally different ball game almost overnight. Important changes will obviously be needed in the way major U.S. corporations select and develop their key executives.

Who Is in Top Management?

This is, of course, a very basic question when it comes to determining top-management staffing needs. There are no "outstanding executives" in the abstract; there are only outstanding executives for certain specific kinds of top-management positions. Most people would agree that the "top management" of a company consists of the select group of executives with major responsibility for charting the course of the business and for key decisions that affect the overall success of the firm. Everyone seemed to be assuming there was general agreement on who that would be, and that the size and composition of the top group would be much the same from firm to firm. The survey provided an opportunity to find out directly from CEO's how they conceptualized their own companies and their prime movers. When they were pinned down by questions about the size and composition of *their* top management group, the answers varied widely from company to company.

The Size of the Top Groups

Almost a quarter of the CEO's of these major U.S. corporations say that, counting themselves, their top-management group consists of somewhere between three and five executives; just over half say the top-group includes between six and ten executives; 14 percent say somewhere between eleven and fifteen executives; and 12 percent say sixteen or more executives. Despite the wide range of top-group sizes the CEO's reported, there is a heavy concentration in the six to ten size category. Regardless of industry or size of company, the usual top-management group in a major U.S. company is made up of about eight executives—give or take a couple.

The Composition of the Top Group

In addition to the CEO, there is almost always another general operating officer for the *whole* company—a president, an executive vice president, a chief operating officer (the position of this other general operating officer varies with the position held by the CEO). There is also almost always a top financial executive.

The representation of other kinds of executives varies widely. It varies, first of all, with the size of the top group. (If there are only three to five executives whom the CEO considers to be in top management, there is not much room for anyone other than the virtually universal three top executives referred to above. But if there are 16

[1]Ruth G. Shaeffer and Allen R. Janger, *Who Is Top Management?* The Conference Board, Report No. 821, 1982.

or more top slots available, then many different kinds of executives can be included.) For example, depending upon the size of the top group, the representation of general operating managers who are in charge of certain business-related *parts* of the company—say, certain product divisions or subsidiaries—runs from 37 percent in the smallest top groups to 90 percent in the largest top groups. And, as another example, the representation of the top human-resource executive runs from 17 percent in the smallest top groups to 80 percent in the largest ones.

There are also variations by industry in the kinds of executives included in top management. For example, the CEO's of manufacturing firms and banks are more likely to include some general operating managers in charge of certain business-related *parts* of the company in their top managements than are the CEO's of companies in the other industries. There are also some variations in the composition of the top-management group reported by CEO's of firms of different sizes.

Moreover, there are variations in the kinds of executives represented in top management that seem to be related to the CEO's idea of the kinds of executives who need to be in top management in order to manage the company in some particular way. Four different top-management models were established that appear to reflect different ways of managing a company. The survey data were then analyzed to see how many of the top-management groups the CEO's had described would fit each model.

All of these models include the CEO, one or more additional general operating officers who focus on the company as a *whole*, and certain corporate *staff* executives—such as the top financial officer. The distinctions among the models are based on what other kinds of *operating* managers—if any—are also included in the top-management group. (See Exhibit 1.)

Functional Managers Model

We called one model a functional managers model, for all companies following this approach include heads of operating functions (such as production or marketing) in their top-management groups. Twenty percent of the companies surveyed have top-management groups that fit this model. This management model would seem to make sense for a CEO who regards the company as being in a single business and whose basic *management* strategy is focused on managing the key functions.

Exhibit 1: Top Management Models

Which Kinds of Executives Are Included?	*Functional Managers Model*	*Mix of Managers Model*	*Business Managers Model*	*Asset and Resource Managers Model*
CEO	Yes	Yes	Yes	Yes
Other General Operating Officer(s) for the *Whole* Company	Yes	Yes	Yes	Yes
Corporate Staff Executive(s), such as Top Financial Executive	Yes	Yes	Yes	Yes
Top Functional Operating Executive(s), such as Top Marketing Executive and/or Top Production Executive	Yes	Yes	No	No
General Operating Manager(s) for Business-Related *Part(s)* of the Company	No	Yes	Yes	No
Percent of companies with this pattern in top-management group	20%	31%	40%	9%

Source: Shaeffer and Janger, 1982, p. 25

Business Managers Model

A second top-management model is characterized by its inclusion of general operating managers who head product divisions, subsidiaries or other profit-centered "business" groups within the company. Functional heads of manufacturing operations or marketing are not part of top management in these companies. Forty percent of the companies have top-management groups that fit this model. This model would seem to make sense for a CEO who thinks of the company as being in several related businesses, and whose management strategy is focused on the management of those key businesses.

Mix of Managers Model

Still another top-management model is a mix of managers model. It includes *both:* (1) *functional* operating executives; and (2) *general* operating managers for certain business-related divisions or groups within the company. Thirty-one percent of the companies use this model. It is the model that would seem to fit the company engaged in several businesses so closely related that they share common production facilities or consolidate their sales efforts. It would also fit a situation in which the CEO seeks to give closer attention to one of the company's businesses than to the other(s).

Asset and Resource Managers Model

The fourth top-management model is an asset and resource managers model in which there are *no* second-level *operating* executives. All of the top-management group is made up of officers with general corporate management roles and staff executives dealing with corporatewide issues and problems—finance, human resources, law, public affairs. Nine percent of the companies have top-management groups that fit this model. It might be used by the CEO of some very large company who regards it as an agglomeration of unrelated businesses and concentrates on the management of financial assets or, possibly, of other scarce resources as well. But it would also seem to fit the needs of a much smaller single-business company in which the CEO and the other general operating officer for the company as a *whole* provide all the functional and business-related operating expertise the company requires—and the only other top-management expertise needed deals with the acquisition and utilization of financial, technological or human resources.

Who Will Be in Top Management in Three to Five Years?

All these variations in the size and composition of top management are relevant in defining top-management staffing needs, but they focus on what already exists, not on what is to come. Therefore, the CEO survey also asked about the future.

Stability—not change—is the watchword when it comes to describing future top-management teams. While there will undoubtedly be some new faces in the top groups, these will largely be replacements for executives with comparable positions. The basic size and mix of responsibilities in the top group is expected to be virtually unchanged. Indeed, as shown in Chart 1, even the "pecking order" based on the proportion of companies including a particular kind of executive in top management does not change in the slightest, and no particular kind of executive suffers any real decline in

Chart 1: The Composition of Top Management Now and in Three to Five Years

(Now Base = 397 companies and Future Base = 388 companies)
Percent of companies in which this kind of executive is included in top management
0
20%
40%
60%
80%
100%
Chief executive officer
Other general operating officer(s) for the whole company
Top financial executive
General operating manager(s) for part(s) of the company
Corporate counsel
Top human resources executive
Top marketing executive
Now
In 3-5 Years
Head of corporate planning
Top production executive
General corporate staff manager(s)
Top R&D executive
Top public affairs executive
Vice-chairman (not also one of above)
Corporate secretary (not also one of above)
Another kind of executive (usually a second financial executive or another member of an executive committee)

Source: Sheaffer and Jenger, 1982, p. 32.

representation. At most, an extra executive will sometimes be added; usually this is a corporate planning, marketing or human resources executive. On the whole, though, the CEO's expect the configuration of their top-management groups—and, therefore, their top-management models—to remain remarkably stable. (See Exhibit 2.) (For more detailed information on who is—and will be—in top management by industry, size of company, and top-management model, see Shaeffer and Janger, 1982.)

The General Outlook for the Company Over the Next Three to Five Years

Because it seemed so relevant to any consideration of how top management and top-management's staffing needs might change over the next three to five years, the surveyed CEO's were asked to describe the general outlook for their company during that time period. As noted in the earlier report, and shown again in Table 1, change—not stability—is the basic outlook. The vast majority (92 percent) of the CEO's expect important changes for their company during the next three to five years, and most expect two or three different kinds of changes:

- Half of the CEO's expect an important merger, acquisition or divestiture for their company. This is an especially prevalent view in banks (64 percent) and in medium-large manufacturing companies (59 percent). (There is, of course, no indication as to which firms will do the acquiring and which businesses will be the ones that are gobbled up.)
- Forty percent of the CEO's expect a major improvement in real profitability. More of the CEO's in retailing (57 percent) and in the largest manufacturing firms (49 percent) were this sanguine; fewer CEO's in banks (21 percent), insurance (23 percent), or utilities (32 percent) expect such profit improvement. CEO's of medium-large banks seem especially pessimistic about their profit outlook.
- Just about 40 percent of the CEO's expect much greater diversification of their company's businesses in the next three to five years. This is an especially prevalent view in the largest banks (71 percent) and the largest insurance companies (50 percent) but is seen as much less likely by the CEO's of medium-large insurance firms (18 percent).
- Over one-third of the CEO's expect important change(s) in basic technology for their company in the forecast period. This view is especially prevalent among the CEO's of both the largest (67 percent) and the medium-large banks (50 percent). It is seen as much less likely to happen in retailing (13 percent) and in the large insurance companies (23 percent).

Exhibit 2: Matrix of Top Management Models Now and in Three to Five Years

	Future Top Management Model[1]				
Top Management Model Now[1]	*Functional Managers Model*	*Mix of Managers Model*	*Business Managers Model*	*Asset and Resource Managers Model*	*Total*
Asset and Resource Managers Model	7	1	1	23	32
Business Managers Model	1	23	119	4	147
Mix of Managers Model	4	106	4	1	115
Functional Managers Model	59	11	2	1	73
Total	71	141	126	29	367 companies

[1]The models being used have been inferred from the CEO's description of the top-management groups.

Source: Shaeffer and Janger, 1982, p. 33.

Table 1: The General Outlook for the Company Over the Next Three to Five Years, by Industry and Size of Company

Expected Changes[1]	*Total*	*Manufacturing*	*Banks*	*Insurance*	*Retailing*	*Utilities*
Much greater diversification of the company's business(es)	30%	37%	59%	36%	30%	46%
Much less diversification of the company's businesses	6	8	—	5	9	—
Important merger/acquisition/divestiture(s)	51	54	64	39	44	32
A major reorganization of the whole company	12	11	15	15	17	—
A major increase in operations outside the United States	18	23	5	—	13	9
A major decrease in foreign operations	1	1	—	—	4	—
Important change(s) in basic technology	34	33	59	28	13	27
A major change in overall corporate growth (in real terms)	31	30	26	36	39	32
A major improvement in real profitability	40	45	21	23	57	32
Other important change(s) (specify)	7	6	8	13	9	9
None of the above	8	7	10	13	4	14
Base (number of companies responding)[2]	*415*	*292*	*39*	*39*	*23*	*22*
Average number of mentions	**2.5**	**2.5**	**2.6**	**2.0**	**2.4**	**1.9**

	Manufacturing		*Banks*		*Insurance*	
Expected Changes	*500 Largest*	*Next 500*	*50 Largest*	*50 Medium Large*	*50 Largest*	*50 Medium Large*
Much greater diversification of the company's business(es)	33%	42%	71%	44%	50%	18%
Much less diversification of the company's businesses	7	6	—	—	9	—
Important merger/acquisition/divestiture(s)	49	59	57	72	41	35
A major reorganization of the whole company	11	11	19	11	14	18
A major increase in operations outside the United States	23	22	5	6	—	—
A major decrease in foreign operations	1	1	—	—	—	—
Important change(s) in basic technology	36	26	67	50	23	35
A major change in overall corporate growth (in real terms)	30	29	33	17	41	35
A major improvement in real profitability	49	40	33	6	27	18
Other important change(s) (specify)	5	6	5	11	9	18
None of the above	6	5	10	11	9	18
Base[2]	*156*	*134*	*21*	*18*	*22*	*17*
Average number of mentions	**2.5**	**2.5**	**3.2**	**2.1**	**2.2**	**1.8**

[1]The questionnaire asked: "As CEO, do you foresee important changes of any of the following kinds for the company during the next 3-5 years? (Check as many as apply.)
[2]Percentages add to more than 100 percent because of multiple responses.

Source: Shaeffer and Janger, 1982, Table 6.

• About 30 percent of the CEO's expect a major change in overall corporate growth (in real terms) for their company, but so few CEO's in medium-large banks have this expectation (17 percent) that one can only assume many expect to be acquired.

• Over 10 percent of the CEO's expect a major reorganization of their whole company within the next three to five years. This runs somewhat higher (17 to 19 percent) for the largest banks, the medium-large insurance companies, and in retailing.

The Employment Outlook

The surveyed CEO's were also asked to predict how their company's employment would change over the next three to five years, both within the United States and in other countries.

• Total U.S. employment in the *combined* surveyed companies is expected to grow only 6 percent over the forecast period. The medium-large manufacturing firms expect 23 percent growth in U.S. employment; the retailers 22 percent growth; the largest banks 18 percent growth; and the medium-large banks 13 percent growth. But this is offset by the 5 percent *drop* in U.S. employment that is expected in both the largest insurance companies and the utilities, and by the fact that the largest manufacturing companies expect their U.S. employment to hold steady.

• Employment outside the United States is expected to

grow at a somewhat higher rate than U.S. employment in the manufacturing companies and in the banks surveyed. The medium-large firms in both of these categories expect *substantial* employment growth outside the United States, but they are, of course, starting from a much lower base than their larger counterparts.

In addition to the above changes in employment noted in the earlier report, there are some interesting differences in the employment outlook for firms using different top-management models.[1] Firms using the functional managers model and also those using the mix of managers model expect *both* their U.S. and their foreign employment to increase. Those using the business managers model expect their U.S. employment to increase, but their foreign employment is expected to show a modest decrease. Those using an asset and resource managers model expect *both* their U.S. and their foreign employment to *decrease* during the next three to five years, with the combined future employment figure being only 84 percent of the present figure.

The number of companies involved is relatively small (34), but the difference in the employment figures is statistically significant and intriguing. Are companies that use the asset and resource managers model of top management more likely to think of their business operations as a portfolio of investments, some of which might be quickly sold off if the outlook for a particular business is poor?

Another possible explanation, of course, would be that these companies tend to be in "old-line" businesses and that the worldwide business recession has hit their operations especially hard. While this might be due to some inherent weakness of management (as some management theorists would claim), it might also be a cyclical phenomenon related to the different industry mix or geographic dispersion of their businesses.

Key Staffing Challenges Relating to the Top-Management Group

Against this background—*stability* for the top-management group and several major *changes* in the outlook for the company as a whole—what do the CEO's say are the key staffing challenges they foresee relating to the top-management group? When given a "laundry list" of possible challenges (plus the opportunity to add some others), the CEO's in various industries selected those shown in Table 2. (See Appendix Table 1 for those chosen by CEO's of companies of different sizes.)

The CEO's were also asked to rank the five challenges that seemed most important to the success of their particular company. When all their rankings are combined in weighted form, these are the five key challenges the CEO's choose:

(1) "Developing a strategic business-planning perspective within the top-management group."

(2) "Building top management's effectiveness in managing a wider range of businesses."

(3) "Choosing the next chief executive officer." (Only about half of the companies will face this challenge in the next three to five years. Those that do, rank it second in importance.)

(4) "Providing more opportunities for potential top executives to develop *general* management perspectives and skills."

(5) "Building teamwork at the top-management level."

Special Challenges by Industry

There is remarkable consistency in the general pattern of the five key challenges across industries and in companies of different sizes, but there are also some important variations:

• *Utilities* are the only industry category in which developing a strategic business-planning perspective is the second, not the first, challenge. Their number-one concern is: "Building top-management's effectiveness in dealing with governments and other external forces and groups"; and their number-three concern is: "Improving top management's grasp of emerging political, economic and social issues."

Given the regulated monopoly status of gas and electric utilities, this double emphasis makes sense. But these two concerns are obviously related; so for purposes of analysis, the responses to them were combined on a nonduplicative basis in other industries. The combined category, which might be described as: "Coping with the external environment in which business operates," turns out to be among the five key challenges for insurance companies, for medium-large banks, and for the 500 largest manufacturers as well.

Moreover, comments by a number of CEO's indicate that the external environments their companies must learn to cope with are expanding rapidly. Where once they were considered to be local, state, regional or at most national in scope, they are increasingly becoming multinational, or even truly global.

• *Banks* identify another special challenge, and it is one that underscores the changing boundaries of business operations both geographically and by industry categories. Tied for third place on their list is: "Improving top management's grasp of emerging technological issues."

Moreover, while not included among the top five challenges by most of them, 57 percent of the CEO's of

[1] Shaeffer and Janger, 1982.

Table 2: Key Challenges Relating to the Top-Management Group, by Industry

Key Challenges[1]	Total	Manufacturing	Banks	Insurance	Retailing	Utilities
Developing a strategic business-planning perspective within the top-management group	85%	84%	95%	93%	85%	79%
Providing more opportunities for potential top executives to develop general-management perspectives and skills	75	72	80	81	82	75
Building top-management effectiveness in managing a wider range of businesses	64	64	65	64	59	58
Building teamwork at the top-management level	57	53	65	62	78	62
Providing more opportunities for potential top executives to innovate and show entrepreneurial flair	56	54	50	64	63	62
Linking top-management succession and development planning to strategic business planning	54	53	48	55	60	62
Choosing the next chief executive officer	52	51	45	55	59	62
Building top-management effectiveness in dealing with governments and other external forces and groups	52	48	60	67	41	83
Improving top management's grasp of emerging political, economic and social issues	49	42	65	62	63	75
Improving top management's grasp of emerging technological issues	46	49	65	26	22	38
Formalizing top-management succession and development planning	36	34	42	43	33	33
Including more women and minorities in the top-management group	35	29	52	60	30	38
Developing a world business outlook within the top-management group	29	36	38	5	7	4
Replacing several top-management executives at about the same time	29	31	15	33	15	29
Bringing more outsiders into the top-management group	8	10	8	7	—	—
Improving top executive health, fitness, work habits	8	8	5	7	7	12
Including more foreign nationals in the top-management group	3	4	2	—	—	—
Other	7	7	2	14	7	4
Base	(424)	(296)	(40)	(42)	(23)	(23)

[1]The questionnaire asked: "When it comes to the top-management group, different companies may be facing quite different kinds of challenges. As CEO, what are the key challenges you believe your company will face during the next three to five years? (Check all that apply.)"

the *largest banks* consider: "Developing a world business outlook within the top-management group" to be one of the key challenges over the next three to five years.

• *Retailers* also identify an especially strong need. Fourth on their list of challenges is: "Providing more opportunities for potential top executives to innovate and show entrepreneurial flair."

Indeed, regardless of industry, more than half of all the CEO's responding to the survey had chosen this as a key challenge, even if it is not among their top five. It is noted most frequently by CEO's in insurance companies and utilities, in addition to those in retailing.

Special Challenges Related to Top-Management Models

There is also some variation in the emphasis that CEO's who use the different models of top management give to different challenges when they rank the five most important ones. The most intriguing difference is an omission. Companies using the asset and resource managers model of top management show no great concern for: "Building top management's effectiveness in managing a wider range of businesses." These companies may already be operating such a wide range of diverse businesses that they do not expect to diversify any

further. As to how to manage such diversity effectively, it is interesting to note that these same companies give special emphasis to "choosing the next CEO" and to "providing more opportunities for potential top executives to innovate and show entrepreneurial flair." Their basic management strategy may well be a "hands off" approach once resources have been allocated.

The selection of the next CEO also looms very large in companies using the business managers model. Many of these top-management groups do not include a chief operating officer, so there is no one who is clearly second in command in these companies. It is also interesting to note that companies using this top-management model show comparatively little interest in "building teamwork at the top-management level." All this may explain why the CEO's of this group of companies give fifth emphasis to: "Linking top-management succession and development planning to strategic business planning." (See Appendix Tables 2 to 4 for detailed information on the key challenges CEO's identified and ranked most important by industry, size of company, and top-management model.)

Choosing the Next CEO

The shift from one CEO to the next is always an important challenge. In unsettled times, it often marks a turning point for the organization—a shift in basic corporate strategy, corporate structure, and/or management style. About half of the firms surveyed will face this challenge during the next three to five years. (See Appendix Table 5.) Regardless of when the change comes—the median year is 1986—most of the CEO's expect it will be handled in a preplanned, orderly fashion. There are no significant differences reported in the way CEO's will be chosen in the next year or so compared to the way they will be chosen in the more distant future. Furthermore, the characteristics needed by the next CEO's remain much the same regardless of when they will be appointed.

The current CEO generally expects to select his own successor in consultation with the board of directors, with relatively little involvement by others, whether they be the company's executives or influential outsiders. While they may turn out to be wrong, about two-thirds of the present CEO's expect that their own opinions will be most likely to determine who the next CEO will be. (See Appendix Tables 6 and 7.) The insurance industry is the only one in which less than half of the CEO's expect to select their own successor; there this power is sometimes held by individual stockholders (18 percent)—or, of course, by the board of directors.

A sizable number of the CEO's appear to be leaving their options open among several *internal* candidates (33 percent of all the CEO's, for example, are unwilling to predict how much length of service with the company the next CEO will have), but relatively few give any indication that an "earthquake" is being planned in which some stranger to the company will suddenly be brought in from the outside. On an overall basis, only 8 percent plan to consult with executive recruiters or management consultants when choosing the next CEO. (This figure does go up to 15 percent in banking and 12 percent in insurance.) Instead, the typical responses of the CEO's indicate they expect their successor:

- Will be about 50 years old when named to the job—a little older in the largest companies. (See Appendix Table 8.)
- Is very likely to be holding a general management position with the company at that time—COO or general operating manager in charge of some business-related *part* of the company. (See Appendix Tables 9 and 10.)
- Is likely to have about 20 years of service with this company—a little less in banking and insurance; a little more for those using an asset and resource managers model for the top group. (See Appendix Tables 11 and 12.)
- Is not very likely to have service with an acquired or merged firm. However, a substantial number (25 percent) of the CEO's admit they do not know about this. (See Appendix Table 13.) Even those who do expect the successor to have this kind of outside service seem to be contemplating that it will be followed by substantial service with their own company.

Prior to becoming a general manager, the next CEO is almost certain to have had functional experience and/or specialized education in one or more of these three areas: marketing and sales; production and engineering; finance and accounting. Indeed, as Table 3 shows, in 53 percent of the companies the next CEO is likely to have experience or education in two or more of these key functions. The particular mix of key functions varies appropriately by industry: Marketing and sales is mentioned more frequently in retailing (67 percent), insurance (52 percent), and manufacturing (45 percent). Production and engineering is mentioned more frequently in utilities (46 percent) and manufacturing (35 percent). A finance and accounting background receives most mention in banks (58 percent), but is also noted by many companies in the other industries, where from 21 percent to 38 percent mention it.

A substantial proportion of the firms in all industries also indicate that the next CEO will have been through a series of rotating cross-functional assignments (from 26 to 45 percent say this), and it is plain that the rotation will occur primarily among the two main *operating* functions plus the financial function. There is also some write-in mention of international experience and of industry-specific functions like R&D in manufacturing and lending in banking. But, except for finance, the typical

Table 3: Functional Experience or Education of Next CEO, by Industry

Functional Area	*Total*	*Manufacturing*	*Banks*	*Insurance*	*Retailing*	*Utilities*
Marketing and sales	43%	45%	18%	52%	67%	8%
Production and engineering	27	35	2	5	—	46
Finance and accounting	27	21	58	38	37	33
Industrial relations and human resources	3	3	2	—	4	8
Law	3	2	—	5	4	8
Public affairs and public relations	a	1	—	—	4	4
Other	7	8	8	5	4	4
Rotating cross-functional assignments	31	30	45	33	26	38
Base[1]	(423)	(297)	(40)	(42)	(27)	(24)
Companies mentioning only one functional area	47%					
Companies mentioning two or more areas (includes all mentioning rotating assignments)	53%					
Base	(423)					
Different from present CEO's background?						
Yes	36%	40%	23%	26%	35%	26%
No	64	60	77	74	65	74
Base	(395)	(278)	(39)	(39)	(23)	(23)

[1]Percentages add to more than 100% because of multiple responses.

[a]Less than 5%.

corporate *staff* functions—human resources, law, public affairs—receive very scant mention.

A heavy majority of the current CEO's in all industries indicate that the functional backgrounds of their successors will not differ significantly from their own background or specialized education.[3] The proportion ranges from 77 percent in banking to 60 percent in manufacturing. Given the data above, even those who say there will be some difference still seem to be talking about a difference that would fit within the norms for their industry. Thus, while 40 percent of the CEO's in manufacturing expect their successors' backgrounds to differ from their own, it is plain that the new CEO's background is likely to remain somewhere within a combination or permutation of the three traditional "bread-and-butter" functions in manufacturing—production, marketing and finance. Even though there is evidence that the CEO's job is becoming more externally oriented and more focused on planning for the future, there does not seem to be any evidence that a corporate *staff* background in human resources, law or public affairs is especially valued when selecting CEO's.[4]

Special Characteristics Needed by the Next CEO

Certain skills, knowledge and personality attributes are always required for effective performance as the CEO of a major U.S. company, but changing circumstances sometimes lead to changing needs. The CEO's responding to the survey were asked whether they believed certain characteristics should receive *special emphasis* when choosing the company's next CEO, and, if so, which three items on a suggested list of characteristics they would rank as first, second and third in importance. (Other characteristics could be added to the list.) Over three-quarters of the CEO's in all categories affirmed that some characteristics will have to be given special emphasis in choosing the next CEO. Table 4 shows the weighted score for each of the characteristics on the list.

Most CEO's not only believe their company can "grow its own" next leader, but also seem to believe there are a reasonable number of basically well-qualified candidates available within the company. When they rank the three characteristics that should receive special emphasis when choosing their successors, they do not highlight the basic

[3]For further information on the characteristics of chief executives over the years, see Harold Stieglitz, *The Chief Executive and His Job*, National Industrial Conference Board Report SPP 214, 1969; Patricia Bonfield, *U.S. Business Leaders: A Study of Opinions and Characteristics*, Conference Board Report No. 786, 1980. Also see, Mabel Newcomer, *The Big Business Executive: The Factors That Made Him, 1900-1950*, New York: Columbia University Press, 1955; Charles C. Burck, "A Group Profile of the *Fortune* 500 Chief Executives," *Fortune*, May, 1976; and *The Chief Executive Background and Attitude Profiles*, Arthur Young Executive Resource Consultants, New York, 1980.

[4]Newcomer, 1955; Stieglitz, 1969; and Bonfield, 1980.

knowledge and experience needed to handle the assignment. Instead, they rank highly individual *personality* characteristics as number one and number two in importance and only then go on to mention some basic background characteristics. The characteristics they ranked as needing the greatest emphasis are:

1. Personal leadership style,
2. Aggressive, competitive outlook,
*3.5. Knowledge of how this business (industry) operates
*3.5. Experience as a general manager.
*Tied for third place.

Fairly close runners up are entrepreneurial flair; knowledge of how this *company* operates (as distinct from this business or industry); and strategic-planning experience. This pattern generally holds true regardless of industry, size of company, or top-management model but there are some appropriate differences. (See Appendix Tables 14 and 15.)

Table 4: Three Characteristics Needing Special Emphasis When Choosing the Next CEO

Characteristics	*Weighted Score Based on CEO's Rankings of Importance*[1]
Personal leadership style	1.58
Aggressive, competitive outlook	.78
Knowledge of how this business (industry) operates	.56
Experience as a general manager	.55
Entrepreneurial flair	.51
Knowledge of how this company operates	.47
Strategic planning experience	.44
Financial skills	.18
Experience dealing with governments and other external forces and groups	.11
Knowledge of management science and systems	.11
Business experience in:	
More than one function	.06
More than one industry	.08
Acquisition or divestiture experience	.07
Negotiating skills	.05
Business experience in:	
More than one company	.02
More than one country	.02
Academic training in business	.01
Other	.09
Number of companies providing rankings	(326)

[1]If *every* CEO had ranked a characteristic as number one in importance, its weighted score would be 3.00

Planning for Management Succession and Development

Two items on the "laundry list" of challenges relating to staffing the top-management group dealt with planning for management succession and development:

"Linking top-management succession and development planning with strategic business planning"; and

"Formalizing top-management succession and development planning."

Neither one by itself appeared on the lists of the top five challenges for any industry category and the first one just barely made it into fifth position for the medium-large banks and for the asset and resource managers model. The two challenges are obviously related so, once again, the responses to them were combined on a non-duplicative basis for purposes of analysis. The combined category which might be described as: "Doing something to improve our management succession and development planning," then turns out to be among the top five challenges for all the banks, the retailing firms and the largest insurance companies.

Other survey information had also been gathered about the companies' current management succession and development planning. These questions were designed to provide an overview of the general nature of the planning, and also to obtain the CEO's evaluations of effectiveness without getting into the details of how the planning processes operate. While CEO's stress the important contribution this kind of planning makes in ensuring top-management effectiveness and continuity, it is plain that they still see room for considerable improvement. This ties in with the fact that so many do regard this as a challenging area.

All CEO's, of course, do some kind of planning for management succession and development, but some chief executives have felt the need for a *formal* planning program. This does not necessarily mean that they use printed forms, written procedures or records, or a computer-based information system. Instead—at least in the opinion of two groups of key executives who wrestled with the idea—having a *formal* planning program simply means that some uniform procedure or approach has been thought through and is being followed with reasonable consistency on an appropriately scheduled basis, regardless of whether all those who are involved are aware that this is so.[1]

Just about half of the CEO's report that their companies have a formal management succession and development planning program. Major technological

[1]This definition was developed during research seminars attended by CEO's and other designated senior executives from companies that had participated in the CEO survey.

change, the growth of the company, and its increasing organizational complexity all seem to be driving forces encouraging formalization of planning. Such programs are most common in utilities (62 percent), in manufacturing (52 percent), and in banking (52 percent). Thus far, they are conspicuous by their absence in insurance (24 percent), and not too prevalent in retailing (44 percent). However, this may well change (see Table 2).

Not surprisingly, formal planning is much more likely to be found in the largest companies. Sixty-six percent of the 500 largest manufacturers do formal planning compared to 35 percent of the next 500 firms. Seventy-two percent of the largest banks have formal plans, while only 35 percent of the medium-large banks do. Even in the insurance industry, if such planning occurs at all, it is a large-company phenomenon.

There is also reason to believe that formal planning becomes more common as the economic configuration of the firm becomes more complex. Only 41 percent of the companies using the functional managers model for top management (firms most likely to be single-business companies) do formal succession planning, while 54 percent of those using the business managers model and 59 percent of those using the asset and resource managers model—both likely to be firms engaged in several businesses—do so.

Of the companies that have formal planning programs, 58 percent say their programs are formally linked to their business planning. This is especially likely to be true in the largest manufacturing companies (61 percent). Once again there seems to be a relationship to the top-management model (or to the complexity of the economic configuration of the firm). Only 53 percent of the companies using the functional managers model of top management report a formal linkage to business planning, while 58 percent of those using the business managers model and 68 percent of those using the asset and resource managers model report such a linkage.

Typically there are somewhere between 20 and 30 executives mentioned by name in the *corporate level* succession plan. But as shown in Appendix Table 16, there is some variation in the median figures by industry and size of company. In utilities, the median number is 40; in banks and manaufacturing it is 25; but in the largest manufacturing companies it is 30 compared to 20 in the medium-large firms.

There is also another pattern: Often only three to ten executives are named in the plan. This is the pattern in 39 percent of the bank plans. In manufacturing, size of company makes a major difference. Only 19 percent of the plans of the 500 largest manufacturing firms name so few as three to ten executives, but 42 percent of the plans of the next 500 firms do.

On a company-by-company basis, the size of the top-management group is one of the primary factors that is likely to influence the number of executives named in the corporate-level succession plan. Similarly, whether a change of CEO is covered by a formal succession plan may well influence the number of executives named in the plan; this is the case in 45 percent of the companies.

When both the size of the top-management group and the inclusion or exclusion of the CEO's position from formal planning are taken into account on a company-by-company basis, there still is a bimodel distribution showing two very different patterns in the ratio of the number of executives named in the succession plan to the number of top-management positions covered by succession planning:

Ratio	*Percent of companies*
1.5 or less	35
1.6-2.5	16
2.6-3.5	8
3.6-5.5	17
5.6 or larger	24

The smaller ratios may best be interpreted as the number of back-ups planned for each top-management executive. According to the executives who attended the participative research seminars, the larger ratios indicate: (1) the CEO takes a direct interest in the succession or replacement planning being done for a number of key executives who are not included in top management; and/or (2) the CEO takes a direct interest in the progress of certain pools of individuals, who are being developed as *potential* key executives.

In any event, it is plain that the formal succession and development planning that is being done at the *corporate level* does not exist in a vacuum. Regardless of industry or size of company, about 90 percent of the CEO's report that similar formal succession and development planning is done at lower organization levels. Moreover, 45 percent of all the CEO's indicate that a committee of the board of directors regularly concerns itself with the selection and development of top-management executives *other than the CEO*. This is especially likely to be true in banking (60 percent) and in retailing (54 percent). It is also more likely to be the case in the largest companies. In manufacturing, 50 percent of the top 500 companies report a committee of the board is involved, but this is true in only 36 percent of the medium-large firms. In banking, the figures are 67 percent for the largest banks and 53 percent for the medium-large ones. In insurance, the percentages are closer: 44 percent in the largest firms and 42 percent in the medium-large ones.

The Results of Formal Succession and Development Planning

The CEO's of companies having formal succession and development plans were asked how often they review the

basic nature and effectiveness of their whole program, and they were also asked a series of questions about how well the program is working. Over half of the CEO's (57 percent) say they review their program annually, and almost all the others say they review it even more frequently (19 percent semi-annually; 11 percent quarterly; 10 percent continuously). Several of those who review their program continuously indicate that the planning is done at different times throughout the year for different parts of the organization, and that such a process leads to virtually continuous evaluation and reevaluation of the whole program's effectiveness.

Many of the formal planning programs appear to be quite new. A fifth of the CEO's were unwilling to make an overall evaluation of program effectiveness at this time; several specifically commented it was too early to make an informed judgment. Of the 164 CEO's who did assess the overall usefulness of their programs in terms of ensuring top-management continuity and effectiveness, four out of five gave a positive evaluation:

CEO's evaluation	*Percent of companies*
Essential	35%
Generally useful	44
A mixed bag	16
Negative	4

There are some differences in evaluations by size of company; 45 percent of the largest manufacturing firms indicate their planning is essential while only 15 percent of the medium-large firms say this. The latter firms are much more likely (32 percent) to characterize their planning results as a mixed bag. (See Appendix Table 17.)

Regardless of industry or size of company, there is fairly general agreement (67 to 74 percent) that the formal succession and development planning program will become more useful during the next few years. Indeed, several CEO's comment that it tends to be a self-sharpening tool, and that additional experience with the process is likely to improve the results being achieved. Others indicate they expect improvement because they will be giving the planning program greater emphasis.

As still another check on the overall usefulness of formal planning, the CEO's were asked a question calling for hard data: "When the last top management position, other than CEO, was filled, was the formal plan followed?" Forty-eight percent of the CEO's said yes; 23 percent said partly; and 29 percent said no.

An even larger proportion of the CEO's of the largest manufacturing companies said yes (56 percent). They had also been more likely to say that formal planning was essential to ensuring top-management continuity and effectiveness and to indicate that their planning was formally linked to their strategic business planning. But what is best for the very largest companies is not necessarily feasible and appropriate for medium-large firms (46 percent of the medium-large manufacturing companies said their plans were *not* followed).

The Kinds of Executives Being Developed Effectively

The results of succession and development planning are very uneven for different kinds of executives. When the CEO's were asked what kinds of executives their formal planning programs develop effectively, 94 percent said the programs did a good job of developing general managers; 66 percent said functional specialists; only 31 percent said business strategists; and only 13 percent said entrepreneurs.

It is, therefore, plain that the number-one challenge almost all the CEO's identified for their top group—the development of a strategic business-planning perspective—represents a crucial, unmet top-level staffing need. It is also plain that the development of entrepreneurs warrants further consideration, although there are some management theorists who claim this goes beyond what a large corporation can hope to accomplish.

The failure of most of the current plans to yield these two distinct kinds of management generalists suggests that most companies have not yet differentiated the selection and development processes that are required to produce them. They may still be assuming that a really good general manager can manage any kind of business equally effectively, and can also do an equally good job at any stage in a business's life cycle.

Further evidence that many companies may not be differentiating their top-management staffing processes sufficiently is found in the fact that one-third of the CEO's are not satisfied with the effectiveness of their plans in developing *functional specialists*. Every single one of the top-management models includes some functional executives. All include some corporate *staff* executives who are *functional* managers—for example, the top financial executive. Indeed, two of the models also include *operating* executives who are functional managers—the top production executive and/or the top marketing executive. Yet the CEO's of companies using these two top-management models indicate no greater effectiveness in the development of functional specialists. (See Appendix Table 18.)

It is, of course, possible that many CEO's regard functional specialization as undesirable—that they think any really *good manager* can manage *any function* of a business equally effectively. Indeed, they may feel that cross-functional experience is the best of all possible ways to develop *all* of the members of a top-management team.

Are they saying, in essence, that the only good

Helping Corporate Staff Executives to Help the Company

The preliminary findings of this study have been discussed at several meetings. Many personnel executives and other corporate staff executives who attended these meetings have indicated it would be especially helpful if their own CEO's would provide them with the kind of information this survey covered. Some say the questions are so relevant to developing top-level managerial effectiveness that they plan to ask their CEO's for the information if it is not volunteered. Others, with less derring-do, expect to use the detailed survey results by industry, size of firm, and top-management model for guidance.

manager is a *general* manager? Has the emphasis on *general* management skills and on a *well-rounded* functional background become so strong that in many of these companies pursuing such a career path is seen as "the only way to get ahead in this outfit"? How many of these companies are forcing some of their best functional specialists to become second-rate management generalists in order to be properly rewarded throughout their careers? (And is this, by any chance, part of the reason U.S. companies have a productivity problem?)

Indeed, how many of today's management-succession and development planning programs have the development of as many potential *chief executives* (and chief operating officers) as possible as their primary focus? Such a "chairman of the board" syndrome may once have been urgently appropriate. But nowadays, top management is more often thought of as a *team* effort, and different players on the team need to be good at doing different things. Therefore, the syndrome may interfere with the effective development of all the differentiated kinds of top-level executives CEO's are now finding their companies need.

Appendix

Appendix Table 1: Key Challenges Relating to the Top-Management Group, by Size of Company

Key Challenges	Manufacturing		Banks		Insurance	
	500 Largest	Next 500	50 Largest	50 Medium Large	50 Largest	50 Medium Large
Developing a strategic business-planning perspective within the top-management group	84%	83%	95%	95%	96%	90%
Providing more opportunities for potential top executives to develop general-management perspectives and skills	68	76	81	79	78	84
Building top-management effectiveness in managing a wider range of businesses	58	72	71	58	65	63
Building teamwork at the top-management level	51	55	71	58	52	74
Providing more opportunities for potential top executives to innovate and show entrepreneurial flair	52	57	48	53	65	63
Linking top-management succession and development planning to strategic business planning	51	54	43	53	52	58
Choosing the next chief executive officer	57	44	38	53	57	53
Building top-management effectiveness in dealing with governments and other external forces and groups	56	39	62	58	83	47
Improving top management's grasp of emerging political, economic and social issues	53	29	71	58	74	47
Improving top management's grasp of emerging technological issues	51	46	76	53	30	21
Formalizing top-management succession and development planning	30	40	33	53	52	32
Including more women and minorities in the top-management group	39	17	52	53	65	53
Developing a world business outlook within the top-management group	36	35	57	16	9	—
Replacing several top-management executives at about the same time	39	23	19	10	44	21
Bringing more outsiders into the top-management group	6	15	10	5	13	—
Improving top-executive health, fitness, work habits	8	9	10	—	4	11
Including more foreign nationals in the top-management group	7	1	5	—	—	—
Other	4	10	5	—	22	5
Base	(160)	(136)	(21)	(19)	(23)	(19)

Appendix Table 2: The Five Most Important Challenges, by Industry

Most Important Challenges[1]	*Total*	*Manufacturing*	*Banks*	*Insurance*	*Retailing*	*Utilities*
Developing a strategic business-planning perspective within the top-management group	1	1	1	1	1	2
Building top-management effectiveness in managing a wider range of businesses	2	2	2	2	—	4
Choosing the next chief executive officer[2]	3	3	5	4	5	—
Providing more opportunities for potential top executives to develop general-management perspectives and skills	4	4	—	3	3	—
Building teamwork at the top-management level	5	5	3.5[a]	5	2	5
Building top-management effectiveness in dealing with governments and other external forces and groups	—	—	—	—	—	1
Improving top management's grasp of emerging political, economic and social issues	—	—	—	—	—	3
Improving top management's grasp of emerging technological issues	—	—	3.5[a]	—	—	—
Providing more opportunities for potential top executives to innovate and show entrepreneurial flair	—	—	—	—	4	—
Number of companies providing rankings	(424)	(296)	(40)	(42)	(23)	(23)

[a]Tied.

[1]The question on which this table is based was: "Of these (key challenges), which *five* seem most important to the success of the company?" (Ranked 1 through 5).

[2]Only 52 percent of all companies say they expect to face this challenge in the next three to five years. Those that do, rank its importance as 2 (Total, Manufacturing, Banks); 3 (Insurance); 5 (Retailing) or still not in the top 5 (Utilities).

Appendix Table 3: The Five Most Important Challenges, by Size of Company

	Manufacturing		*Banks*		*Insurance*	
Most Important Challenges	*500 Largest*	*Next 500*	*50 Largest*	*50 Medium Large*	*50 Largest*	*50 Medium Large*
Developing a strategic business-planning perspective within the top-management group	1	1	1	1	1	1
Building top-management effectiveness in managing a wider range of businesses	3	2	4	2	2	3
Choosing the next chief executive officer[1]	2	5	5	4[a]	4.5[a]	5
Providing more opportunities for potential top executives to develop general-management perspectives and skills	4	3	—	4[a]	—	2
Building teamwork at the top-management level	5	4	3	—	—	4
Building top-management effectiveness in dealing with governments and other external forces and groups	—	—	—	—	3	—
Improving top management's grasp of emerging technological issues	—	—	2	—	—	—
Improving top management's grasp of emerging political, economic and social issues	—	—	—	—	4.5[a]	—
Linking top-management succession and development planning to strategic business planning	—	—	—	4[a]	—	—
Number of companies providing rankings	(160)	(136)	(21)	(19)	(23)	(19)

[a]Tied.

[1]Those that say they face this challenge in the next three to five years rank its importance as 2 (500 Largest Manufacturing; 50 Largest Banks; Next 500 Manufacturing); or as 3 (50 Largest Insurance; 50 Medium Large Insurance).

Appendix Table 4: The Five Most Important Challenges, by Top-Management Model

Most Important Challenges	*Functional Managers Model*	*Mix of Managers Model*	*Business Managers Model*	*Asset and Resource Managers Model*
Developing a strategic business-planning perspective within the top-management group	1	1	1	1
Building top-management effectiveness in managing a wider range of businesses	2	2	3	—
Providing more opportunities for potential top executives to develop general-management perspectives and skills	3	3	4	3[a]
Building teamwork at the top-management level	4	4	—	5
Choosing the next chief executive officer	5	5	2	3[a]
Linking top-management succession and development planning to strategic planning	—	—	5	—
Providing more opportunities for potential top executives to innovate and show entrepreneurial flair	—	—	—	3[a]
Base	(80)	(109)	(143)	(32)

[a]Tied.

Appendix Table 5: When Next CEO Is Likely to be Named, by Industry

Year	*Total*	*Manufacturing*[1]	*Banks*[1]	*Insurance*	*Retailing*[1]	*Utilities*[1]
1981 or 1982	14%	14%	12%	22%	9%	17%
1983 or 1984	21	20	12	18	36	25
1985 or 1986	28	27	20	28	42	29
1987 or 1988	13	12	24	12	4	12
1989 or 1990	13	13	24	8	4	12
1991—1995	9	10	6	12	4	4
1996 or later	2	3	3	—	—	—
Base	(389)	(276)	(34)	(42)	(22)	(24)
Median year	**1986**	**1986**	**1987**	**1985**	**1986**	**1985**

[1]Percentages do not add to 100 percent due to rounding.

Appendix Table 6: Who Will Be Consulted in Choosing the Next CEO, by Industry and Size of Company

Persons Consulted	Total	Manufacturing	Banks	Insurance	Retailing	Utilities	Manufacturing: 500 Largest	Manufacturing: Next 500	Banks: 50 Largest	Banks: 50 Medium Large	Insurance: 50 Largest	Insurance: 50 Medium Large
Present CEO	98%	98%	100%	98%	96%	96%	99%	97%	100%	100%	96%	100%
Committee of the board	62	57	90	67	70	67	60	53	90	90	74	58
Full board of directors	59	60	40	64	63	58	58	62	38	42	78	47
Outside directors	56	57	52	36	59	63	66	47	52	53	39	32
Chairman of the board (not also CEO)	22	24	12	29	7	4	19	30	10	16	13	47
Major individual stockholders	19	17	15	33	37	—	14	19	24	5	26	42
Top human-resources executive	19	22	20	9	22	8	26	17	33	5	9	10
Outside executive recruiters or management consultants	8	7	15	12	4	4	2	10	24	5	4	21
Full top-management group	7	6	12	7	7	4	4	7	10	16	9	5
Committee of executives	5	4	5	5	7	8	5	5	10	—	4	5
Head of management-succession planning unit	2	2	5	—	4	4	4	—	—	10	—	—
Outside commercial or investment bankers	2	2	—	—	7	—	2	2	—	—	13	—
Other	3	2	2	10	—	12	1	3	5	—	—	5
Base	(422)	(296)	(40)	(42)	(27)	(24)	(160)	(136)	(21)	(19)	(23)	(19)

Appendix Table 7: Whose Opinion Will Determine the Next CEO, by Industry

Person(s) Deciding	*Total*	*Manufacturing*	*Banks*[1]	*Insurance*[1]	Retailing[1]	*Utilities*[1]
Present CEO	66%	68%	62%	41%	74%	77%
Committee of the board	13	10	24	10	22	9
Full board of directors	8	8	3	15	—	5
Outside directors	5	6	5	—	—	5
Major individual stockholder(s)	4	2	5	18	4	—
Chairman of the board (not also CEO)	2	2	—	5	—	—
Other	2	4	—	10	—	5
Base	(389)	(275)	(37)	(39)	(23)	(22)

[1]Percentages do not add to 100 percent due to rounding.

Appendix Table 8: Age of Next CEO when Named, by Industry and Size of Company

Age	Total	Manufacturing	Banks[1]	Insurance[1]	Retailing[1]	Utilities	Manufacturing[1] 500 Largest	Manufacturing[1] Next 500	Banks 50 Largest	Banks 50 Medium Large	Insurance 50 Largest	Insurance 50 Medium Large
40 or younger	2%	2%	—	3%	6%	—	—	4%	—	—	—	6%
41 to 45	18	16	16%	24	24	17%	10%	24	—	31%	12%	35
46 to 50	35	33	52	42	29	22	31	28	60%	44	38	47
51 to 55	28	30	25	21	30	22	35	24	33	19	38	6
56 to 60	16	18	6	9	6	39	24	10	7	6	12	6
61 or older	1	1	—	—	6	—	1	1	—	—	—	—
Base	(313)	(216)	(31)	(33)	(17)	(18)	(118)	(98)	(15)	(16)	(16)	(17)
Median age	**50**	**50**	**50**	**50**	**50**	**53**	**52**	**50**	**50**	**49**	**50**	**48**
Don't know[2]	23%	23%	22%	19%	32%	22%	22%	27%	25%	16%	27%	10%
Base	(414)	(286)	(39)	(41)	(25)	(23)	(151)	(135)	(20)	(19)	(22)	(19)

[1]Percentages do not add to 100 percent due to rounding.

[2]The percentage responding "Don't know" is based on all those giving some response to the question.

Appendix Table 9: Position Immediately Prior to Becoming Next CEO, by Industry and Size of Company

Position Held	Total	Manufacturing[1]	Banks[1]	Insurance[1]	Retailing	Utilities[1]	Manufacturing[1] 500 Largest	Manufacturing[1] Next 500	Banks 50 Largest[1]	Banks 50 Medium Large	Insurance 50 Largest	Insurance 50 Medium Large[1]
Chief operating officer	58%	58%	55%	46%	56%	65%	62%	53%	52%	58%	54%	37%
General operating manager in charge of a group of businesses or a division or subsidiary	20	21	25	17	11	9	19	23	24	26	27	5
Top financial executive	4	3	12	7	4	4	2	4	10	16	—	16
Top marketing executive	2	2	—	15	—	—	—	4	—	—	5	26
CEO of another company	2	3	—	—	—	—	3	4	—	—	—	—
General corporate staff manager in charge of several corporate staff units	1	3	2	2	—	4	1	1	5	—	—	5
A multiple response that included CEO of another company	5	5	2	2	7	4	4	7	5	—	5	—
A multiple response that did not include CEO	8	7	2	10	22	13	9	5	5	—	9	10
Base	(421)	(297)	(40)	(41)	(27)	(23)	(160)	(137)	(21)	(19)	(22)	(19)

[1]Percentages do not add to 100 percent due to rounding.

Appendix Table 10: Position Immediately Prior to Becoming Next CEO, by Top-Management Model

Position Held	*Functional Managers Model*[1]	*Mix of Managers Model*[1]	*Business Managers Model*	*Asset and Resource Managers Model*[1]
Chief operating officer	68%	53%	57%	68%
General operating manager in charge of a group of businesses, or a division or subsidiary	6[a]	27	23	12
Top financial executive	8	2	4	6
Top marketing executive	4	4	1[a]	3[a]
CEO of another company	1	2	3	3
General corporate staff manager in charge of several corporate staff units	—	4	—	—
A multiple response that included CEO of another company	8	3	4	—
A multiple response that did not include CEO	5	6	8	9
Base	(80)	(123)	(160)	(34)

[a]This would indicate some reorganization of the top-management group if this position is with the present company.

[1]Percentages do not add to 100 percent due to rounding.

Appendix Table 11: The Next CEO's Years of Service with the Company, by Industry and Size of Company

Years of Service	Total	Manu-facturing	Banks[2]	Insurance[2]	Retailing	Utilities[2]	Manufacturing		Banks		Insurance	
							500 Largest	Next 500	50 Largest	50 Medium Large	50 Largest	50 Medium Large
1 year or less	1%	—	4%	—	5%	—	—	—	(1)	—	—	—
2 to 5 years	8	10%	7	4%	—	5%	7%	13%	(2)	—	—	(1)
6 to 10 years	15	16	7	22	11	17	16	16	(1)	(1)	(1)	(5)
11 to 15 years	20	19	28	14	26	11	14	26	(3)	(5)	(4)	—
16 to 20 years	22	20	21	29	21	28	16	26	(2)	(4)	(3)	(5)
21 to 25 years	18	17	25	14	16	28	24	7	(3)	(4)	(3)	(1)
26 to 30 years	11	13	7	4	16	5	15	9	(2)	—	(1)	—
31 years or more	5	5	—	14	5	5	6	3	—	—	(3)	(1)
Base	(279)	(187)	(28)	(28)	(19)	(18)	(111)	(76)	(14)[a]	(14)[a]	(15)[a]	(13)[a]
Median years of service	**20**	**20**	**17-18**	**18**	**20**	**20**	**20**	**15**	**12**	**20**	**20**	**18**
Don't know[1]	33%	35%	30%	33%	30%	25%	30%	43%	33%	26%	35%	32%
Base	(427)	(294)	(40)	(42)	(27)	(24)	(159)	(135)	(21)	(19)	(23)	(19)

[a]Base too small for percentages to be meaningful. Therefore, actual numbers appear.

[1]The percentage responding "Don't know" is based on all those giving some response to the question.

[2]Percentages do not add to 100 percent due to rounding.

Appendix Table 12: The Next CEO's Years of Service with the Company, by Top-Management Model

Years of Service	*Functional Managers Model*	*Mix of Managers Model*	*Business Managers Model*	*Asset and Resource Managers Model*
1 year or less	2%	2%	—	—
2 to 5 years	6	5	8%	8%
6 to 10 years	16	11	19	12
11 to 15 years	18	24	19	8
16 to 20 years	22	20	24	17
21 to 25 years	14	22	15	38
26 to 30 years	9	11	12	17
31 years or more	13	5	3	—
Base	(55)	(81)	(100)	(24)
Don't know[1]	31%	35%	35%	25%
Base	(80)	(124)	(153)	(32)

[1]The percentage responding "Don't know" is based on all those giving some response to the question.

Appendix Table 13: Will Next CEO Have Service with Acquired or Merged Firm?, by Industry, Size of Company, and Top- Management Model

Service with Acquired or Merged Firm	Total	Manufacturing[1]	Banks	Insurance[1]	Retailing	Utilities	Manufacturing[1]: 500 Largest	Manufacturing[1]: Next 500	Banks: 50 Largest	Banks: 50 Medium Large	Insurance: 50 Largest[1]	Insurance: 50 Medium Large[1]	Functional Managers Model	Mix of Managers Model	Business Managers Model	Asset and Resource Managers Model
Yes	8%	8%	3%	10%	11%	—	12%	4%	—	5%	4%	16%	7%	5%	10%	9%
No	67	62	75	67	74	88%	62	62	76%	74	78	53	74	69	62	67
Don't know	25	29	22	24	15	12	26	33	24	21	17	32	19	26	28	24
Base	(420)	(294)	(40)	(42)	(27)	(24)	(158)	(136)	(21)	(19)	(23)	(19)	(81)	(124)	(158)	(33)

[1]Percentages do not add to 100 percent due to rounding.

Appendix Table 14: Three Characteristics Needing Special Emphasis When Choosing Next CEO, by Industry and Size of Company

Characteristics	Total	Manufacturing	Banks	Insurance	Retailing	Utilities	Manufacturing: 500 Largest	Manufacturing: Next 500	Banks: 50 Largest	Banks: 50 Medium Large	Insurance: 50 Largest	Insurance: 50 Medium Large
Personal leadership style	1	1	1	1	1	1	1	1	1	1	1	1
Aggressive, competitive outlook	2	2	3	3	2	2.5[a]	2	2	2	—	—	2
Knowledge of how this business operates	3.5[a]	—	2	2	4[a]	—	—	—	—	2	2	3
Experience as a general manager	3.5[a]	3	—	—	—	—	—	—	—	3	—	—
Knowledge of how this company operates	—	—	—	—	4[a]	—	3	—	—	—	—	—
Experience dealing with governments and other external forces and groups	—	—	—	—	—	2.5[a]	—	—	—	—	—	—
Strategic planning experience	—	—	—	—	4[a]	—	—	—	3	—	—	—
Entrepreneurial flair	—	—	—	—	—	—	—	3	—	—	3	—
Base	(326)	(220)	(27)	(35)	(19)	(20)	(117)	(109)	(16)	(13)	(19)	(16)

[a]Tied.

Appendix Table 15: Three Characteristics Needing Special Emphasis When Choosing Next CEO, by Top-Management Model

Characteristics	Functional Managers Model	Mix of Managers Model	Business Managers Model	Asset and Resource Managers Model
Personal leadership style	1	1	1	1
Aggressive, competitive outlook	2	3.5[a]	2	2
Knowledge of how this business operates	3	2	—	3.5[a]
Knowledge of how this company operates	—	—	—	3.5[a]
Experience as a general manager	—	—	3	—
Entrepreneurial flair	—	3.5[a]	—	—
Base	(65)	(100)	(116)	(26)

[a]Tied.

Appendix Table 16: Number of Executives Named in the Corporate-Level Succession Plan, by Industry and Size of Company[1]

Number	Total	Manufacturing[2]	Banks[2]	Insurance	Retailing	Utilities	Manufacturing 500 Largest	Manufacturing Next 500
3 to 10	26%	25%	39%	—	(4)	(2)	19%	41%
11 to 20	17	18	6	(5)	(2)	—	15	24
21 to 30	23	20	33	(1)	(3)	(2)	22	16
31 to 50	13	10	6	(2)	(2)	(5)	12	8
51 to 100	8	9	6	(2)	(1)	(3)	11	3
more than 100	13	17	11	—	—	—	21	8
Base	(173)	(124)	(18)	(10)[a]	(12)[a]	(12)[a]	(87)	(37)
Median number	**25**	**25**	**25**	**21**	**21**	**40**	**30**	**20**

[a]Base is too small to allow calculation of meaningful percentages. Therefore, actual numbers are used.

[1]Size comparison for manufacturing only.

[2]Percentages do not add to 100 percent due to rounding.

Appendix Table 17: Usefulness of Formal Succession and Development Planning in Ensuring Top-Management Continuity and Effectiveness, by Industry and Size of Company[1]

A. CEO's evaluation of usefulness	*Total*	*Manufacturing*	*Banks*	*Insurance*	*Retailing*	*Utilities*	*Manufacturing*	
							500 Largest	*Next 500*
Essential	35%	36%	(4)	—	(5)	(6)	45%	15%
Generally useful	44	43	(8)	(4)	(3)	(7)	42	44
A mixed bag	16	16	(2)	(4)	(1)	(1)	10	32
Not particularly useful	4	4	(1)	(1)	—	—	2	9
Often a waste of time	—	—	—	—	—	—	—	—
Base	(164)[b]	(121)[b]	(15)[a]	(9)[a]	(9)[a]	(14)[a]	(87)[b]	(34)
B. How CEO expects usefulness to change during the next few years								
Likely to become more useful	73%	73%	67%	(9)	(9)	(9)	72%	74%
About the same	27	27	33	(1)	(1)	(5)	28	26
Likely to become less useful	—	—	—	—	—	—	—	—
Base	(179)	(131)	(18)	(10)[a]	(10)[a]	(14)[a]	(93)	(38)
C. Was sucession plan followed when the last top-management position (other than CEO) was filled?								
Yes	48%	48%	45%	(2)	(6)	(8)	56%	30%
No	29	29	35	(3)	(3)	(3)	22	46
In part	23	23	20	(5)	(1)	(3)	22	25
Base	(198)	(148)	(20)	(10)[a]	(10)[a]	(14)[a]	(104)	(44)[b]

[a]Base is too small to allow calculation of meaningful percentages. Therefore, actual numbers are used.

[b]Percentages do not add to 100 percent due to rounding.

[1]Size comparison for manufacturing only.

Appendix Table 18: Kinds of Executives Developed Effectively by the Formal Succession and Development-Planning Program, by Industry, Size of Company, and Top-Management Model[1]

Kinds of executives	Total	Manufacturing	Banks	Insurance	Retailing	Utilities	Manufacturing: 500 Largest	Manufacturing: Next 500	Top Management Model: Functional Managers Model	Top Management Model: Mix of Managers Model	Top Management Model: Business Managers Model	Top Management Model: Asset and Resource Managers Model
General managers	94%	95%	94%	(9)	(9)	(13)	98%	87%	96%	95%	95%	(12)
Functional specialists	66	69	56	(5)	(7)	(9)	68	72	70	66	69	(8)
Business strategists	31	25	33	(4)	(6)	(7)	30	13	41	33	29	(3)
Entrepreneurs	13	12	6	(2)	(2)	(2)	14	8	7	16	9	(4)
Other	5	4	—	(2)	—	(1)	3	8	—	7	3	(2)
None of the above	1	2	—	—	—	—	2	—	—	—	3	—
Base	(184)	(132)	(18)	(10)[a]	(10)[a]	(14)[a]	(93)	(39)	(27)	(58)	(77)	(14)[a]

[a]Base too small to allow calculation of meaningful percentages. Therefore, actual numbers are used.

[1]Size comparison for manufacturing only.

10/82 R410529.14

Research Bulletin

Social Security: Problems and Solutions

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The Conference Board

number 122

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INTEREST AND CONCERN about the financial integrity of the social security system has been mounting steadily since the mid 1970's, and has become especially acute in the past year or two. While there have been numerous reports by study groups, and comments in the media abound, a lack of understanding of the issues apparently still persists.

According to recent nationwide surveys, a majority of working people have little or no confidence that there will be funds to pay their benefits when they retire.[1] Certainly, some of the predictions that have appeared in the media in recent years—foreboding bankruptcy and the imminent collapse of the social security system—have contributed to an erosion of confidence in the program. The aim of this report is to provide a brief overview of the social security system's philosophy and functioning, the nature and causes of both the short-term deficits and the projected longer range deficits—and the variety of viable solutions available for restoring the system's financial soundness.

Introduction

THE SOCIAL SECURITY SYSTEM, created by Congress in 1935, experienced relatively smooth sailing during the first four decades of its existence and, consequently, aroused little anxiety about fiscal soundness. But, by the mid-1970's, when deficits were registered, the sanguine attitude toward the program dissipated and was replaced by an atmosphere of uneasiness.

Triggered by the 1974-1975 recession, unemployment rose and has remained at high levels ever since.[2] Moreover, persistent inflation has accompanied the high unemployment rates.[3] As a consequence of the confluence of these two phenomena—high rates of unemployment and of inflation—more money was being paid out by the system than was received. (High unemployment rates reduce the amount collected through payroll taxes. Inflation increases the amount paid out by the system since social security benefits are raised automatically each year to reflect increases in the cost of living as measured by the CPI.)

In each year since 1975, total payments to OASI (Old Age and Survivors Insurance) beneficiaries exceeded the amounts collected for OASI through payroll taxes. As a result, by the end of 1981, the OASI fund had shrunk to the equivalent of two-and-a-half months' disbursements—compared with slightly more than one year's disbursements at the end of 1971. In December, 1981, when official estimates indicated that the OASI reserve fund would be virtually depleted before the end of 1982, Congress passed legislation permitting the OASI trust fund to borrow from the disability and medicare funds, which still had surpluses. Such interfund borrowing was a short-term, ad hoc measure applying specifically to 1982.

[1]Two studies by Louis Harris and Associates, Inc., *Aging in the Eighties: America in Transition*. Washington, D.C.: The National Council on the Aging, Inc., 1981; and *1979 Study of American Attitudes Toward Pensions and Retirement*. New York: Johnson & Higgins, 1979; and another by Peter D. Hart Research Associates, Inc., *A Nationwide Survey of Attitudes Toward Social Security*. Washington, D.C.: The National Commission on Social Security, 1980.

[2]From 1975 through 1981, the annual unemployment rate ranged between 5.8 percent and 8.5 percent, or an average of 7.1 percent for the seven-year period. In the first seven months of this year, it stood at a seasonally adjusted rate of 9.2 percent. These levels are substantially above those prevailing in the 1960's when the annual unemployment rate held between 3.5 percent and 6.7 percent, or an average of 4.8 percent.

[3]From 1974 through 1981, the CPI (Consumer Price Index) showed increases from the preceeding year that ranged between 5.8 percent to 13.5 percent, or an average of 9.4 percent for the eight-year interval. In contrast, from 1958 through 1967, annual increases in the CPI never exceeded 2.9 percent, and averaged 1.7 percent for the entire ten-year period.

Underlying Philosophy and Goals of the Social Security System

THE ARCHITECTS of the U.S. social security system envisioned a structure that would provide a floor of protection to workers and their families against the loss of earnings resulting from a wage earner's retirement, disability or death. The structure sought to combine two principles that are often incompatible—individual equity and social adequacy.

On an individual equity basis, payments to a beneficiary are directly related to, and commensurate with, the premiums paid. Had the social security system been based strictly on equity, an individual's benefits would be determined solely by his or her contribution levels. But this is not the case.

From its very beginning, the underlying aim of the program has been to relate benefits to earnings (and to payroll taxes paid)—the individual equity principle—but also to weight benefits in favor of workers with low lifetime earnings—the social adequacy principle. Therefore low-wage earners receive smaller absolute benefits compared with higher wage earners, but these benefits represent a higher proportion of their earnings. The intention of this feature is for low-wage earners to receive a level of benefits that provides at least the basic necessities of life. If the social security benefits were based strictly on individual equity, many more might well require public assistance. Another concession to social adequacy is that married workers are subject to the same payroll tax rates as single workers—but receive broader coverage since their dependents also receive benefits. The rationale is that married workers have greater expenses than single workers and thus are entitled to receive higher earnings-replacement rates.[4]

Among its other features, social security is compulsory for most types of employment and is national in scope. Social security now covers 116 million workers—compared with 35 million in 1940. Of today's 36 million OASDI beneficiaries, 56 percent are retired workers; 8 percent are disabled workers; and the remaining 36 percent are auxiliary beneficiaries. (Auxiliary beneficiaries comprise the spouse and children of a retired or disabled worker, or survivors of a deceased worker.)

Initially, the system embraced only persons employed in commerce and industry. Over the years, Congress extended the system to include farm and domestic workers, the self-employed, most employees of nonprofit organizations, most state and local government employees, members of the military services, and other miscellaneous groups. (Coverage of employees of state and local governments and nonprofit organizations is optional.) Employees of the Federal Government, some state and local governments, some nonprofit organizations, and railroad workers covered by the Railroad Retirement Act comprise the majority of workers not covered by the system. There is also a relatively small number of workers who are not covered by social security because their earnings are too low. Currently, about 95 percent of those workers reaching 65 years of age are eligible for social security retirement benefits.

Social security is a self-contained system financed by contributions of employers, employees and the self-employed. Moreover, it is a pay-as-you-go program whereby current workers and employers, through payroll taxes, pay for the benefits of current beneficiaries. The three trust funds—OASI (Old Age and Survivors Insurance), DI (Disability Insurance), and HI (Hospital Insurance)—serve as contingency reserves.[5] When expenditures exceed revenues—in periods of recession, for example—these reserves allow the system to meet its full obligations. While there is no firm agreement on the precise minimum level of contingency reserves needed to keep the system solvent, opinions of the experts range between three months and one year of estimated annual outlays.

The Immediate Outlook

The 1982 Annual Report of the Social Security Board of Trustees presents four sets of projections. Alternative I is described as optimistic, Alternatives II-A and II-B are regarded as intermediate, and Alternative III is characterized as pessimistic (Chart 1 on page 9). Each projection is based on a different set of economic and demographic assumptions (Tables 1 and 2). Alternative II-B, the less optimistic of the two intermediate projections, is regarded by the actuaries of the Social Security Administration as the most realistic of the four.

Under all four sets of projections, according to the Trustees' Report, the OASI trust fund will be too low to pay benefits on time by July, 1983. Even if interfund borrowing were authorized beyond 1982 and the OASI trust fund were to continue borrowing from the DI and the HI trust funds, it is estimated, under II-B assumptions, that the combined assets of the three funds would be insufficient to meet projected expenditures by some

[4]For a discussion of major social programs in the United States—welfare programs as well as social insurance programs—see Robert D. Reischauer, *The Impact of Social Welfare Policies in the United States*. Edgar Fiedler, editor, The Conference Board, Report No. 823, 1982.

[5]The Secretary of the Treasury, the Secretary of Labor, and the Secretary of Health and Human Services constitute the three-member Board of Trustees of the social security trust funds. They produce an annual report on the current financing status of the trust funds together with projections for the future based on different scenarios.

Table 1: Selected Demographic Assumptions for Selected Years, 1960-2060

Calendar year	Total fertility rate[1]	Life expectancy[2]			
		At birth		At age 65	
		Male	Female	Male	Female
Past experience:					
1960	3.61	66.7	73.4	13.0	16.1
1965	2.88	66.8	74.1	13.0	16.6
1970	2.43	67.1	74.9	13.2	17.2
1975	1.77	68.7	76.5	13.7	18.1
1980	1.84	69.8	77.7	14.3	18.7
Alternative I:					
1985	1.96	70.4	78.3	14.5	19.1
1990	2.07	70.9	78.9	14.8	19.4
1995	2.18	71.2	79.2	14.9	19.7
2000	2.29	71.4	79.4	15.0	19.8
2010	2.40	71.6	79.6	15.2	20.0
2030	2.40	72.0	80.1	15.5	20.4
2050	2.40	72.4	80.6	15.7	20.8
2060	2.40	72.6	80.8	15.9	21.0
Alternatives II-A and II-B:					
1985	1.90	71.0	78.9	14.8	19.5
1990	1.95	71.9	80.0	15.3	20.3
1995	2.00	72.6	80.8	15.6	20.8
2000	2.05	72.9	81.1	15.8	21.1
2010	2.10	73.4	81.6	16.1	21.6
2030	2.10	74.2	82.6	16.7	22.4
2050	2.10	75.0	83.6	17.3	23.2
2060	2.10	75.4	84.1	17.6	23.6
Alternative III:					
1985	1.85	72.1	80.2	15.3	20.4
1990	1.79	74.0	82.5	16.3	22.1
1995	1.76	75.3	84.1	17.0	23.5
2000	1.73	75.9	84.9	17.4	24.2
2010	1.70	76.8	86.0	18.1	25.1
2030	1.70	78.5	88.3	19.5	27.2
2050	1.70	80.2	90.6	20.8	29.3
2060	1.70	81.0	91.8	21.5	30.4

[1]The total fertility rate for any year is the average number of children who would be born to a woman in her lifetime if she were to experience the birth rates by age observed in, or assumed for, the selected year, and if she were to survive the entire child-bearing period.

[2]The life expectancy for any year is the average number of years of life remaining to a person at a specified age.

Source: *1982 Annual Report of Trustees of the Board of the Federal Old-Age and Survivors Insurance and Disability Trust Funds*, p. 35.

time in 1984—assuming no legislative changes. Thus, the report concludes that interfund borrowing will not solve the short-term financing problem by itself.

Among the recommendations that will doubtless receive serious consideration by Congress in addressing the short-term deficits are: revising the method for indexing benefits for inflation; establishing universal social security coverage; using general revenues to finance medicare; taxing social security benefits; and raising payroll taxes. The National Commission on Social Security Reform is currently preparing a report that will offer remedies for both the short-range and long-range deficits in the social security system. The Commission was established by the President in December, 1981.[4] Its mission is to examine the current and long-range financial condition of the social security trust funds, identify and analyze the problems, and make recommendations that have the objective of assuring a financially sound social security system that provides "appropriate benefits." While its report is due by December 31, 1982, it is expected that it will be made available in November. After the November elections but

[4]The bipartisan Commission comprises fifteen members chosen by the President, Majority Leader of the Senate, and the Speaker of the House of Representatives—each of whom provided five selections.

Table 2: Selected Economic Assumptions for Selected Years, 1960-2060

Calendar year	Average annual percentage increase in: Real GNP[1]	Average wages in covered employment	Consumer price index	Real-wage differential[2] (percent)	Average annual interest rate[3] (percent)	Average annual unemployment rate (percent)
Past experience:						
1960-1964	4.0	3.4	1.3	2.1	3.7	5.7
1965-1969	4.4	5.4	3.4	2.0	5.2	3.8
1970	− .2	4.9	5.9	−1.0	7.3	4.9
1975	−1.1	6.6	9.1	−2.5	7.4	8.5
1976	5.4	8.2p	5.7	2.5p	7.1	7.7
1977	5.5	8.0p	6.5	1.5p	7.1	7.0
1978	4.8	8.2p	7.6	.6p	8.2	6.0
1979	3.2	8.8p	11.4	2.6p	9.1	5.8
1980	− .2	8.6p	13.5	−4.9p	11.0	7.1
Alternative I:						
1981	2.1a	8.8	10.3	−1.5	13.3	7.6
1985	5.1	7.0	4.2	2.8	6.6	5.8
1990	4.0	5.2	2.2	3.0	5.3	4.3
1995	3.4	4.5	2.0	2.5	5.1	4.0
2000 & later	3.5b	4.5	2.0	2.5	5.1	4.0
Alternative II-A:						
1981	1.9a	8.8	10.3	−1.5	13.3	7.6
1985	4.8	7.4	4.8	2.6	9.8	6.4
1990	3.7	6.0	3.5	2.5	6.0	5.0
1995	3.0	5.0	3.0	2.0	5.6	5.0
2000 & later	3.1b	5.0	3.0	2.0	5.6	5.0
Alternative II-B:						
1981	1.8a	8.6	10.3	−1.7	13.3	7.6
1985	3.0	6.9	6.6	.3	8.0	7.7
1990	3.0	6.0	4.5	1.5	6.4	6.1
1995	2.5	5.5	4.0	1.5	6.1	5.0
2000 & later	2.6b	5.5	4.0	1.5	6.1	5.0
Alternative III:						
1981	1.8a	8.6	10.3	−1.7	13.3	7.6
1985	3.8	9.2	9.2	.0	9.4	8.8
1990	2.7	8.0	7.2	.8	7.6	6.9
1995	1.8	6.2	5.2	1.0	6.7	6.0
2000 & later	2.1b	6.0	5.0	1.0	6.6	6.0

[1]The real GNP (Gross National Product) is the total output of goods and services expressed in constant dollars.

[2]The difference between the percentage increase in average annual wages in covered employment and the percentage increase in the average annual CPI.

[3]The average of the interest rates determined in each of the 12 months of the year for special public-debt obligations issuable to the trust funds.

[a]The actual value of the 1981 increase in real GNP was 2.0 percent. This value was not available at the time the cost estimates were prepared; the cost estimates were based on the assumed increases in real GNP shown under the four alternatives.

[b]This value is for the year 2000. The annual percentage increase in real GNP is assumed to continue to change after 2000 under each alternative to reflect the dependence of labor force growth on the size and age-sex distribution of the population. The percentage increases for 2060 are 3.4, 2.5, 2.1, and 1.0 for alternatives I, II-A, II-B, and III, respectively.

[p]Preliminary.

Source: *1982 Annual Report of Trustees of OASDI Trust Funds*, pp. 32 and 33.

before year-end, Congress will be pressed to pass legislation to redress the shortfalls that are otherwise projected to occur during the next several years. The expectation is that the recommendations of the Commission will play an important role in the formulation of such legislation.